State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD

Relating to Private Equity Partnerships Portfolio Policies and Procedures

Resolution 2011-04

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee of the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, the Board contracts an independent consultant to provide experience and expertise in asset allocation and other investment matters to come before the Board; and

WHEREAS, the Board has established an asset allocation for the funds that considers earnings and liabilities on a current as well as a future basis; and

WHEREAS, the Board has authorized investment in private equity assets for the Public Employees' Retirement System and the Teachers' Retirement System; and

WHEREAS, the Board will establish and from time to time as necessary, modify policy and procedures, guidelines and an investment plan for private equity;

NOW THEREFORE, BE IT RESOLVED THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopts the Private Equity Partnerships Portfolio Policies and Procedures, attached hereto and made a part hereof. This resolution repeals and replaces Resolution 2007-07.

DATED at Anchorage, Alaska this 28th day of April, 2011.

Chair

ATTEST:

Secretary

ALASKA RETIREMENT MANAGEMENT BOARD

PRIVATE EQUITY PARTNERSHIPS PORTFOLIO
POLICIES AND PROCEDURES

Revised 4/2011, Adopted by Resolution 2011-04

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ALASKA RETIREMENT MANAGEMENT BOARD

PRIVATE EQUITY PARTNERSHIP PORTFOLIO POLICIES & PROCEDURES

I. INVESTMENT OBJECTIVES

A. INVESTMENTS IN PRIVATE EQUITY AND DEBT ASSETS

The Alaska Retirement Management Board ("ARMB") has determined that, over the long term, inclusion of private equity and debt investments (herein after referred to collectively as "private equity") would enhance the ARMB's expected portfolio investment characteristics. Specifically, as a result of the possibility of enhanced rates of return over publicly traded securities and returns that have low correlation with those associated with other major asset classes, the use of private equity investments tends to increase the portfolio's overall long-term expected real return, and reduce year to year portfolio volatility.

Private equity investments involve the purchase of unlisted, illiquid common and preferred stock, and to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. Investments in company private securities are made primarily through institutional blind pool limited partnership vehicles, further described in Section I.D. The private equity strategies to be pursued are further described in Section II.A.

The ARMB's investment policies are determined by the Board of Trustees. In general, ARMB's goal is to achieve the actuarial return at the minimum risk.

Private equity investments of the ARMB shall be made in a manner consistent with the fiduciary standards of the prudent expert rule: (1) for the sole interest of the ARMB's participants and their beneficiaries; and, (2) to safeguard and diversify the private equity portfolio. The selection and management of private equity assets will be guided to preserve investment capital and to maintain prudent diversification of assets and management responsibility. The diversification objective is required to manage overall market risk and the specific risks inherent in any single investment or management selection.

B. ASSET ALLOCATION

The ARMB commitment to private equity investments shall remain within the limits authorized by the Board of Trustees. The target commitment is 7 % (within a range of 2% to 12%) of its portfolio (based on invested net asset value). ARMB recognizes that it will be necessary to make capital commitments in excess of the target allocation in order to achieve and maintain a 7% net asset value.

An important implementation goal for ARMB is to spread out timing of new commitments so as to avoid an undue concentration of commitments in any one fiscal year. In order to efficiently build ARMB's private equity portfolio, Staff has the flexibility to approve in writing a variance of up to 10% beyond an investment manager's annual commitment target. Over the long-term it is expected that approximately equal amounts of new funding will be committed each year to garner the benefits of time diversification.

C. PORTFOLIO PERFORMANCE

The ARMB shall use the following rate of return tests to evaluate the performance of the private equity asset class:

1. Total Return (Realized and Unrealized Gain/Loss Plus Income)

Based on long-term expectations of publicly traded equities producing an overall average return of 9-11%, the private equity portfolio is expected to generate a minimum total rate of return that meets or exceeds the Russell 3000 Index plus 350 basis points. Performance will be measured on both an Internal Rate of Return (IRR) and a Time-Weighted Return basis, net of investment management fee, expenses and any incentive compensation. Any individual fund investment is expected to produce a return in excess of 13% IRR to contribute to the overall portfolio return expectations.

The primary investment strategies included in the allocation will provide the opportunity for long term capital gains.

The portfolio and individual investments will be benchmarked against the universe contained in the Thomson ONE database. Benchmarks are published for venture capital and buyout and subordinated debt funds. For restructuring funds and other special situation private investments, returns should be competitive with buyout and subordinated debt funds, with the return falling between the two. In any event, the 13% minimum hurdle rate will apply.

2. Risk

Private equity investments are expected to provide a higher level of return than many asset classes, but they also have a higher degree of risk. Private equity generally involves investments in the unlisted securities of private companies through closed-end partnerships. These investments are illiquid since there is no efficient resale market. Private equity also has high fees and the potential for the fees to overcome early investment returns resulting in a return j-curve, where early net returns are generally negative. There are portfolio transparency and valuation issues and the potential for high leverage in certain strategies. The asset class also has incomplete data and benchmarks and high return dispersion between managers.

In private equity investing there is the risk of sustaining a loss on any of the individual investments. It is the ARMB's expectation that, while specific investments may incur losses of all or part of capital invested, a diversified portfolio of holdings will produce a positive rate of return in the expected range set forth in Section I.C.1., above.

D. PROGRAM MANAGEMENT

The selection and management of assets in the private equity portfolio will be guided to generate a high level of risk adjusted return, provide a moderate amount of current income, and to maintain prudent diversification of assets and specific investments.

With private equity investments, there is an inherent risk that the actual return of capital, gains and income will vary from the amounts expected. The ARMB shall manage the investment risk associated with private equity investments in several ways:

1. Institutional Quality

All assets must be of institutional investment quality. Institutional quality will be defined as being of a quality whereby the investment would be considered acceptable by other prudent institutional investors (i.e. insurance company general accounts and separate accounts, commercial banks and savings institutions, public employee retirement systems, corporate employee benefit plans - domestic and foreign, and other tax-exempt institutions).

2. Diversification

The private equity portfolio shall be diversified as to investment strategy, timing of investment, size and life cycle of investment, industry sector, investment sponsor organization (i.e., general partner group), and geographical location. Diversification reduces the impact on the portfolio of any one investment or any single investment style to the extent that any adversity affecting any one particular area will not impact a disproportionate share of the total portfolio.

Investments will be made such that at full investment a maximum of 20% of the total private equity allocation can be invested at any point in time with any single, general partnership, entity or related organization. No single private equity investment strategy will comprise more than 60% of the allocation. It is also recognized that during the portfolio development and wind-down stages the full investment parameters may not, of necessity, be met. The ARMB is permitted to own up to 51% of any particular partnership subject to the partnership sponsor limitation above.

The scope and size of Alaska's program is such that significant investments in fewer, more concentrated partnership investments are preferred to smaller investments in more numerous partnerships. However, investing with the highest quality partnerships remains the top priority. While Alaska has not set a minimum dollar amount per partnership, the investment manager will be charged with deploying the capital efficiently, such that funding targets are achieved with a reasonably small number of partnership holdings. Average investment size will be monitored.

Long-term diversification targets among eligible investment strategies will be set forth in Section II.A. Eligible Investments, and reviewed annually or as necessary. Interim investment goals toward the implementation of the private equity program will be set forth in an annual *Tactical Plan* (Appendix A) as described herein.

3. <u>Ownership Structure</u>

Account and Investment Structure: The ARMB's ownership structure will comprise separate account relationships with one or more fiduciary investment managers and direct investments by the ARMB. The separate account investment managers will in turn make commitments to private equity limited partnerships, on ARMB's behalf, on a discretionary basis. The ARMB may also make partnership investments directly or through authority delegated to the CIO in section III.A.1 of this policy. All investments will be subject to portfolio diversification targets established in the *Policies and Procedures*, approval of an annual *Tactical Plan* by the ARMB, and with prior notification as to program compliance via an *Investment Disclosure Form* (Appendix B). Other commingled vehicles or separate account investments, which are not limited partnership units, may only be purchased by the investment manager, subject to a structural compliance review by the staff, wherein the ARMB must approve any such proposed investment.

Direct Co-Investments and Direct Investments: Certain investment managers offer direct placement services on their client's behalf. Suitable arrangements for co-investment and direct investment authorization may be incorporated in the investment management agreement. Co-investments and direct investments have not been approved by ARMB.

Direct co-investments entail providing additional funding to specific company investments being made by the limited partnerships to which ARMB has commitments. In specific instances the general partner will invite the limited partners to provide additional capital when an investment is of a size which exceeds the partnerships diversification parameters. Co-investments will only be allowed in the same class of security as the partnership investment. Direct investments entail investments in companies that are sourced by the investment manager organization.

4. <u>Reporting System</u>

There shall be a comprehensive reporting and monitoring system for the entire portfolio, investment manager(s) and individual investments. Situations of underperforming investments, portfolio diversification deficiencies from the *Policies & Procedures*, and conflicts of interest can then be identified, facilitating active portfolio management. Further definition of this reporting system is provided in Sections III.C.2.b. "Investment Management Ongoing Operations" and III.C.3. "Investment

Management Portfolio Accounting and Financial Control.”

5.

5. Distributions

ARMB prefers to receive distributions from the partnership investments in the form of cash, whenever possible. Otherwise, any in-kind (i.e., security) distributions should be freely tradable and, whenever possible, in the form of unrestricted stock. ARMB prefers to receive the cash realization of any in-kind distribution as soon as practicable, given market conditions. The investment manager will be responsible for managing to cash any in-kind distributions. The investment manager shall have well-defined and clearly articulated procedures in place for ensuring the orderly liquidation of in-kind distributions and the timely settlement of any liquidation transactions. ARMB’s staff will monitor the investment manager’s performance of the distribution functions.

6. Performance Measurement

The investment manager will provide cash flow, valuation, and any other requested information to ARMB's Staff and general consultant quarterly, and ARMB’s custodian bank on a monthly basis. Regarding valuations the investment manager will notify the Staff of any instances where the investment manager is using different carrying values from those reported by the general partner.

Performance will be calculated on both a time-weighted and dollar-weighted (internal rate of return or IRR) basis, with primary emphasis being placed on the internal rate of return. The rate of return calculations will be net of all partnership fees and expenses, but gross of investment manager fees and expenses. So that the performance numbers reported by the manager and the custodian bank are the same, the manager will be responsible for reviewing the custodian’s figures as to timing, amount, value of in-kind securities at distribution and reported net asset value, and reconciling any discrepancies. Staff will calculate and report a private equity portfolio IRR at least annually as part of the private equity tactical plan.

In-kind Distributions: Partnerships will be valued on the distribution price of the in-kind security or other valuation method stipulated in the partnership agreement. Any change from distribution price to realized price of the in-kind distributions will then be monitored as a separate component of the total portfolio return.

Benchmarks: For IRR calculations, the Vintage Year methodology will be used for purposes of performance comparisons to the industry. For time-weighted returns, comparable publicly traded market indicators (such as small cap indices) will be employed.

7. Lines of Responsibility

Well-defined lines of responsibility and accountability will be required of all participants in ARMB's private equity investment program. Participants are identified as:

Board of Trustees -	The fiduciaries appointed by the Governor to represent the beneficiaries' interest, who retain final authority over all private equity investment decisions.
Staff -	Investment professionals on the staff of the Department of Revenue and assigned ARMB responsibilities who will assist in the private equity investment program's design, implementation and administration.
Investment Manager(s) -	Qualified fiduciaries who provide institutional private equity investment management services and maintain a discretionary relationship with ARMB in implementing the private equity program. In separate account relationships the investment manager ("Manager") must be a Registered Investment Advisor under the Investment Company Act of 1940, registered with the Security and Exchange Commission.
Consultant -	Professionals retained to support ARMB through the provision of expert private equity and alternative investment program knowledge and technical support.

The responsibilities, with respect to the private equity portfolio, of the parties cited above are outlined in Section III.A.1-4. Unless otherwise stated, the remainder of the guidelines contained herein pertain to the limited partnership investments entered into by the ARMB.

E. CONFLICTS OF INTEREST

1. Manager Proprietary Products -- In private equity investing, unlike other asset classes, there may be situations wherein the investment manager may recommend its proprietary investment product(s) for investment. The investment managers do not have discretion to invest in their own proprietary products. If the ARMB is considering an investment manager's proprietary investment product(s), staff shall use the ARMB's private equity consultant to assist in analyzing the suitability of the investment(s).

2. Allocation of Investments Among Accounts -- There may be instances where the manager will need to allocate an investment opportunity among a number of clients or a competing product (i.e., fund-of-funds). Suitable protective covenants or processes for resolving conflicts in allocation among accounts will be incorporated in the investment management agreement.

3. Personal Investments -- The investment manager's employees are permitted to invest personally or otherwise have beneficial interest in investments held on behalf of clients such as ARMB, only upon the ARMB's first securing a full and appropriate allocation. Similarly, the investment manager's employees are permitted to sell an interest in investments that are also held by the ARMB only after the ARMB's holding has been first and fully liquidated. The investment manager will provide ARMB with its policies for personal investments by employees as an attachment to the Investment Management Agreement, and notify the Staff of any changes. In instances where the manager or its employees are securing an investment or beneficial interest, notice must be provided to ARMB at least five business days prior to the closings for either party.

4. Other Conflicts of Interest -- When and if other conflicts of interest become apparent, suitable protective covenants or processes for resolving conflicts will be incorporated into the investment management agreement.

II. INVESTMENT POLICIES

The private equity program will be guided by long-term target ranges to eligible investment strategies listed below. Each year the program will be further implemented and modified in accordance with an *Annual Tactical Plan* prepared by staff and the Investment Managers, reviewed by Staff and approved by the Board.

A. ELIGIBLE INVESTMENTS

The following private equity strategies and investment types will be considered eligible for the ARMB's portfolio. Long-term ranges are established for each strategy. Staff and the Consultant will seek to manage the allocations toward the mid-point of the ranges at full investment.

1. Venture Capital: Expected Range: 15% to 40%, Target: 25% – Investments in newer high growth companies typically addressing technology, life sciences and other specialty growth industries. Venture capital partnerships will be allocated into the following three categories and the manager will endeavor to select partnerships that represent the strategies in the appropriate amounts and diversity.

Early-Stage: Seed or start-up equity investments in private companies.

Later-Stage: Investments in more mature companies (e.g., with developed products, revenues, and potentially profits) to provide funding for growth and expansion.

Multi-Stage: Investments in venture capital companies at various stages of company development, including early-, late- and any other interim stages of development.

2. **Buyouts/Acquisition:** Expected Range: 30% to 60%, Target: 45% – Partnerships which provide funding to acquire majority or controlling interests in a business or product lines from either a public or private company. These partnerships are generally diversified by industry and other relevant measures. Buyout partnership cover company size ranges from very large to small-market.

3. **Special Situations:** Expected Range 20% to 40%, Target: 30% – Partnerships with private corporate finance investment strategies that do not fall under the prior two categories. The manager will seek to diversify the portfolio across various sub-strategies. Examples include:

   Hybrid Partnerships: Funds that have broad strategy mandates and may invest materially in non-control investment structures or a variety of strategies that would preclude a simple venture capital or buyout categorization.

   Industry Specific: Funds that target a specific industry (e.g., energy, financial services, media and communications, etc.). These funds may be considered as having greater industry specific risk than more diversified buyout funds.

   Subordinated Debt: Partnerships that make debt-related investments in unsecured or junior obligations in financings. These generally take the form of subordinated debentures or preferred stock. They typically earn a current coupon or dividend and have warrants on common stock or conversion features.

   Restructuring/Recovery: Investments made in distressed or poorly performing companies, with the intent of initiating a recovery via financial restructuring or the introduction of management expertise. Partnership investments may include debt and/or equity securities.

   Other: There are private equity/corporate finance partnerships that pursue strategies different from those cited above which the manager may, in its discretion, seek to participate in.

Exposure to these strategies may be pursued through direct partnership investments, fund-of-one, and/or commingled fund-of-funds vehicles.

B. GEOGRAPHICAL LOCATION DIVERSIFICATION

Although the priority of the portfolio should be to achieve diversification by investment strategy, another measure of diversification is by geographical location. Over the long-term, the ARMB portfolio should seek portfolio diversification with regard to major regional areas both domestically (i.e., Northeast, Mid-Atlantic, Southeast, Midwest/Plains, Southwest/Rockies, West Coast, Pacific Northwest), and internationally (i.e., Europe, Pacific Basin, South and Latin America).

International private equity investments shall comprise 20-45% of the private equity investment allocation measured at the portfolio company level, and shall be diversified in the context of the total portfolio.

C. INDUSTRY SECTOR DIVERSIFICATION

The ARMB portfolio will seek to diversify by industry sector (i.e., Biotechnology, Computers, Financial Services, Healthcare, Medical, Media/Communications, Electronics, Software, Consumer/Retail, Basic Industry, Other, etc.) such that no one industry classification will represent more than 25% of the private equity portfolio.

The Staff will review the industry classification methodology employed by the investment manager and will adopt the methodology if it is deemed sufficient, or work with the investment manager to develop mutually satisfactory categories.

D. LIFE CYCLE DIVERSIFICATION

Commitments to partnership investments will be staged over time. It is ARMB's long-term goal to spread out investment timing such that new commitments will be made each fiscal year. This policy will have the effect of dollar cost averaging the ARMB’s portfolio over business cycles and helps insulate the portfolio from event risk. Capacity to make commitments will be allotted to the investment manager in accordance with the ARMB’s investment projection model, which will be updated as part of the *Annual Tactical Plan,* described here-in, or as necessary.

E. INVESTMENT SPONSOR (GENERAL PARTNERSHIP GROUP) DIVERSIFICATION

The ARMB portfolio will seek to diversify by issuer of limited partnership securities, and other specific investments sponsors. No more than 20% of the ARMB’s private equity portfolio net asset value will be invested with any one investment sponsor organization. Net asset value is defined as the carrying value of the investments reported by a partnership’s general partner in the quarterly financial statements.

It is ARMB’s intention to keep the total holdings of the portfolio to a reasonable number. Given the significant total dollar size of the ARMB’s private equity net asset value target, large concentrated investments in fewer partnerships, are preferred to smaller investments in more numerous partnership securities. However, the ARMB recognizes that investing with the highest quality partnerships remains the top priority and smaller investments in venture capital will be warranted.

III. PROCEDURES FOR INVESTMENT

A. GENERAL ALLOCATION OF RESPONSIBILITIES

The private equity partnerships program shall be implemented and monitored through the coordinated efforts of the Board of Trustees for the Alaska Retirement Management Board (the “Board”); the ARMB’s Staff (the “Staff”); the qualified Investment Investment Manager(s) (the “Manager”) and the Consultant (“Consultant”). Delegation of responsibilities for each participant is described in the following sections.

1. Board of Trustees

The Board of Trustees shall approve the investment policies and objectives which the Trustees judge to be appropriate and prudent to implement its strategic plan for the investment of ARMB’s assets; review the performance criteria and policy guidelines for the measurement and evaluation of the investment managers of the ARMB’s assets; review the Consultant and Staff’s recommendations to retain a qualified investment manager(s) and set discretionary investment limits; supervise the investment of ARMB’s assets to ensure that the ARMB’s investments remain in accordance with the Board’s strategic planning and the Alaska Retirement Management Board’s Objectives and Policies and the Private Equity Partnerships Portfolio *Policies and Procedures* documents. The Board shall select and make ongoing retention decisions regarding all service providers including the investment manager.

The Board of Trustees will guide the execution of the program by review and approval of a long term target ranges for private equity strategies prepared by Staff, which will be updated and revised periodically as appropriate; and a short term *Annual Tactical Plan* prepared by the Investment Manager, reviewed by Staff, and approved by the Board which details goals and objectives for the next 12 months. The Board will monitor the program's progress and results through a performance measurement report prepared quarterly by the Investment Manager and reviewed by Staff.

Direct Investments by the ARMB in Private Equity Partnerships

The ARMB shall set an allocation target for direct investments in private equity partnerships as part of the *Annual Tactical Plan.* For direct investments, the ARMB delegates authority to the Chief Investment Officer (“CIO”) to commit the annual allocation target to a number of direct investments or fund-of-fund investments with private equity partnerships as follows:

a. The CIO has the authority to engage the ARMB’s private equity consultant to assist in the evaluation, due diligence, and negotiation of private equity partnership investments; and

b. The CIO has the authority to commit to private equity partnership investments with new managers of up to $50 million per investment with concurrence on the investment decision from the ARMB private equity consultant; and

c. The CIO has the authority to commit to private equity partnership investments of up to $50 million per investment with existing private equity partnership managers and former private equity partnership managers in good standing; and

d. With respect to the direct investment allocation target set by the ARMB annually, the CIO has the authority to commit up to an additional $50 million over and above this target to accommodate specific investment opportunities or manage the ARMB's allocation to private equity.

The CIO will notify the Chair of the ARMB seven (7) days prior to committing to any direct private equity partnership investment. With respect to direct investments made by the ARMB, Staff will assume the relevant investment manager responsibilities addressed in Section III.C of this document and the Consultant will review the performance of the direct investments.

2. Staff

The Staff will develop draft investment objectives and policy language for Board consideration. The Staff will guide the execution of the program by developing long-term target ranges for private equity strategies, which will be updated and revised periodically as appropriate. The Staff will oversee the Manager in preparing a short term *Annual Tactical Plan*, which detail goals and objectives for the next twelve months. The Staff will also review the Manager's quarterly portfolio reports, review the Manager's proposed *Investment Disclosure Forms* (Appendix B) for compliance with the strategic plan and conflicts of interest, and review the Manager's and the portfolio's performance in relation to assigned responsibilities.

The Staff will coordinate program compliance among all participants and communicate the investment policies, objectives and performance criteria to the investment manager(s). The Staff will coordinate the receipt and distribution of capital.

The Staff and Consultant will identify qualified investment investment manager(s) for implementation of private equity investment program, and will advise the Board of Trustees of any material changes in the manager organization(s).

3. Investment Manager(s)

The Investment Manager(s) shall acquire and manage, on a discretionary basis, private equity investments on behalf of Alaska and in accordance with the Investment

Objectives as described in Section I of the ARMB's *Private Equity Policy and Procedures* document and the Investment Policies as described in Section II.

The choice of withholding discretion from the Managers for any investment vehicle that is not a limited partnership (or other limited liability entity), represents a policy decision that, among other things, is intended to protect the ARMB from liability beyond the invested capital.

The asset allocation executed by the Manager will be dictated by the target strategy ranges established in the *Policies and Procedures* and the *Annual Tactical Plans*.

4. Consultant

As approved by the Board, the Consultant shall advise on program development, conduct Investment Manager searches when requested; and provide independent, third party advice and information. The Consultant will also be available to be retained to conduct special project work when requested by the ARMB.

B. INVESTMENT PROCEDURE

Private equity investments in compliance with the ARMB's Policies (Section II) and the Investment Objectives (Section I) shall be acquired through the following process:

Eligible Investments and Target Ranges: As part of the *Policies and Procedures*, the Staff will prepare a long-term target capital allocation ranges for eligible private equity strategies (Section II.A.) after a review of investment criteria, performance expectations, and other relevant program requirements.

Annual Tactical Plan: Annually, Staff and the Investment Manager(s) will prepare a tactical plan which reviews the current status of the portfolio, recent historical and prospective market conditions, and proposes the steps to be taken over the next twelve month period to further implement the long-term strategic plan. The filing of ongoing *Annual Tactical Plans* will occur on the quarter-end every 12 months following the quarter in which the original plan was filed. The *Annual Tactical Plan* will be reviewed by the Staff and approved by the Board. The outline of concepts to address in the *Annual Tactical Plan* is provided in Appendix A.

Specific Investments: The Investment Manager will identify and evaluate limited partnerships and, as appropriate, other investment vehicles that are in compliance with ARMB investment guidelines and current *Annual Tactical Plan*. The Investment Manager will be responsible for all aspects of evaluation and closing, subject to prior notice via an *Investment Disclosure Form*, an example of which is provided in Appendix B.

C. SPECIFIC INVESTMENT MANAGER RESPONSIBILITIES

1. Funding Procedures

The Investment Manager shall provide the ARMB, on a best efforts basis, with five (5) days notice of drawdowns. ARMB shall also be provided with documented wiring instructions in advance.

2. Investment Management

Investment Managers are directly accountable for the following investment management responsibilities. This section designates certain investment responsibilities that the Investment Manager will perform or cause to be performed. Fees and expense reimbursements for these duties are outlined in the Manager's contract.

a. Investment Selection -- The Investment Manager will be responsible for evaluating investment opportunities and selecting, on a discretionary basis with fiduciary responsibility, private equity investments to be made on behalf of ARMB.

The screening and selection will be made with a view to maximize ARMB's risk adjusted rate of return, within the parameters and allocations of each private equity strategy as set by the Board of Trustees in the *Polices and Procedures*.

An *Annual Tactical Planning* process will be used in determining the number and types of investments within each strategy. The manager will also take into consideration relevant overall portfolio diversification considerations as set forth in the Objectives and Policies statement and Program Management (Section I.B.) of this document. The process will include, but not be limited to, the following services:

(1) *Annual Tactical Plan* preparation. This report outlines the steps the investment manager will take during the next fiscal year to further implement the ARMB’s adopted strategic plan.

The *Annual Tactical Plan* will include a review of the current status of the portfolio, perceived investment environment, the types and number of partnerships to be sought and underlying rationale, and goals for other management responsibilities such as situations being monitored and adding value.

(2) Review and maintain a log of all opportunities available in the market over time, as well as investments directed to the manager by the ARMB.

(3) Screen and evaluate all opportunities to identify investments that will provide

the most attractive risk and return characteristics and are a fit with the portfolios long-term and short-term objectives.

(4) Conduct full and proper due diligence fully documenting the process. Due diligence will be conducted to a standard of completeness attributable to a prudent expert. The Investment Manager will make available for review by the ARMB, or its agents, the Manager policies, procedures, and standards for conducting due diligence, and the due diligence documentation performed on any investment made on the ARMB's behalf. The ARMB recognizes that there may be instances where the Investment Manager possesses confidential information which for legal or other verifiable reasons cannot be disclosed to the ARMB. On-site visits at the General Partners' main office will be a mandatory part of investment due diligence. In certain rare circumstances, the Manager may satisfy the requirement for an on-site visit if the Manager has made a relevant visit to the General Partner's main office within one year of the commencement of investment due diligence. The minimum requirements of due diligence will include the quality and expertise of the General Partner (including relevant experience, reputation, deal flow, staff turnover, etc.), historical performance, structure of the Limited Partnership (including, but not limited to, the alignment of interest of the General Partner and the Limited Partners) and diversification by industry, geography, strategy, etc.

(5) The Investment Manager will submit an *Investment Disclosure Form* to Staff at least five (5) business days prior to making a commitment on ARMB's behalf.

(6) Negotiate investment terms and conditions, partnership agreements and other closing documents on ARMB's behalf, with a view to maximize returns, minimize expenses, safeguard the ARMB's assets, and secure investor rights; and make investments on the ARMB's behalf. The investment manager shall provide ARMB counsel the opportunity to review partnership agreements and related documents prior to their execution.

(7) The investment manager will be charged with deploying the capital efficiently, such that funding targets are achieved with a minimal number of partnership holdings. Due to the scope and size of ARMB's program significant, concentrated investments in fewer partnership investments are preferred to smaller investments in more numerous partnerships. The manager will include discussions of the number and size of planned investments in the periodic portfolio planning and reporting documents.

b. <u>Ongoing Operations</u> -- The Manager shall manage or cause to be managed, each investment made such as to enhance the ARMB's value in the investment. The Manager shall be responsible for conducting or supervising the following services with respect to each investment:

(1) <u>Monitoring and Voting</u> -- Maintaining close communication with the General

Partners of the investments, maintaining an awareness of and documenting the progress and level of performance of each investment. This will include attendance at annual partnership meetings and, as appropriate, sitting on limited partner advisory boards. It will also involve voting on partnership and other portfolio securities matters on ARMB's behalf as need arises.

(2) Adding Value -- The Manager shall take all necessary or appropriate steps consistent with applicable capital and operating budgets to assure the ARMB's investment is managed to or above its anticipated performance level.

(3) Disbursement, Receipt and Cash Management -- Develop procedures for funding commitments on a timely basis and coordinating the receipt of cash distribution from the partnership investments, including a policy for the orderly liquidation of in-kind distributions (i.e., securities distributions) received from partnerships. The policy for liquidating in-kind distributions should include but not be limited to the Manager's process for deciding when to sell distributed shares and actions the Manager will take to ensure timely settlement of stock sales.

(4) Books and Records -- The Manager shall maintain books of account with correct entries of all receipts and expenditures incident to the management of the investment. These books, together with all records, correspondence, files and other documents, shall at all times be open to the inspection of the ARMB. The Manager shall maintain complete and accurate records of all transactions related to the managed investment, including receipts and all correspondence relating thereto on such forms as the ARMB's auditors may reasonably require and make such records available for inspection and copying by ARMB at all reasonable times. The Manager shall bear the costs associated with the retention of such records and if ARMB shall request copies of such records, the Manager shall bear the cost of duplicating and sending such records to the ARMB.

(5) On-Going Review -- The Manager shall keep itself informed of the overall market conditions relative to the managed investments and the managed investments' competitive position in the applicable investment strategies. The Manager will also be responsible for ensuring compliance with partnership agreements, attending to amendments, resolutions, voting proxies, and other investment related matters. All such activities will be undertaken with a view toward maximizing value to ARMB.

(6) Disposition Review -- The Manager shall review the managed investments with respect to continued timely return of capital, income and gains. The manager will be responsible for managing to cash any in-kind (i.e., security) distributions received from the partnership investments.

(7) Notice -- The Manager shall notify the Staff as soon a practicable in writing of

any investigation, examination or other proceeding involving the investments or investment sponsors commenced by any regulatory agency or of any action, suit or proceeding commenced against or by the Manager or an investment sponsor.

3. Portfolio Accounting and Financial Control

The Manager's accounting, reporting and financial control and administration system shall meet the following objectives:

a. Financial Control -- The Manager will provide control systems to protect assets, detect errors and insure the reliability of information generated by the accounting system.

c. Investments' Financial Statements -- On a quarterly basis, the Manager will receive from investee partnerships unaudited financial statements, and annually, audited financial statements.

d. Accounting Policies -- Accounting policies for ARMB are outlined below:

(1) Current Value Reporting -- Accounting data shall be computed using current values provided by the General Partners and Investment Sponsors of the investments. The Manager will make note of instances where performance presentation standards are not in compliance with Global Investment Performance Standards (GIPS®). The Manager will be held to a standard of reasonable care in verifying that the General Partners valuations reasonably reflect the underlying value of the investments. The Manager will make special note of investments which may be materially and permanently impaired in relation to the General Partners carrying value, and will notify the Staff of such investments, as soon as practicable, and in no instance later than by incorporation in the next quarterly performance measurement report.

4. Reporting Requirements

a. Manager Quarterly Report -- On a quarterly basis, within 45 days of quarter-end, the Manager(s) shall provide the Staff with a report on the portfolio which will address activities occurring during the quarter an updated list of holdings, cash flows, valuations, IRR, and any and all other items of which ARMB should be apprised.

b. Custodian Bank Monthly Statement -- On a monthly basis, the Manager(s) shall provide the Custodian a report of ARMB's account cash flows and valuations, and any other information reasonably requested.

c. Annual Tactical Plan -- Within 120 days of calendar year end, Staff, with input from the Investment Managers, shall prepare and submit an *Annual Tactical Plan* for approval of the Board. The *Annual Tactical Plan* shall cover the topics outlined in Appendix A and will include a review of the current status of the portfolio and outline the steps anticipated toward portfolio development over the course of the coming fiscal year.

d. Investment Disclosure Form -- At least five (5) business days prior to making a commitment on behalf of ARMB, the Manager will provide to the Staff an *Investment Disclosure* form. The investment disclosure form will be reviewed by the staff regarding an investments fit within the *Policies and Procedures*, *Annual Tactical Plan*, and any possible conflicts of interest.

   Any questions or discussion items with regard to an investment's fit within the portfolio structure can then be reviewed prior to the investment manager executing the subscription documents.

e. Other Information -- The Investment Manager will also provide any other reasonable information requested by the Staff, or the ARMB's Custodian Bank, or other agent of ARMB.

D. SPECIFIC CONSULTANT RESPONSIBILITIES

The Consultant will provide consultation on the initial development and ongoing review and recommendation of revisions to ARMB's Policies and Objectives, *Private Equity Policies and Procedures*, and assist with Investment Manager searches when requested by the ARMB. The Consultant will provide independent third party advice and information, and will also be available to be retained to perform special projects as requested by the Board.

Appendix A

ALASKA RETIREMENT MANAGEMENT BOARD
PRIVATE EQUITY
ANNUAL TACTICAL PLAN GUIDELINES

Tactical Plan: The Tactical Plan is a report which outlines the steps to be taken in the next 12 month period to further implement the private equity portfolio, and any other actions or considerations germane to the active management and success of the portfolio. It also documents the reasons for the particular courses of action to be taken, and importance of items under consideration.

The Staff reviews the Tactical Plan and recommends Board of Trustees approval of the finalized plan. All sections should be as brief as possible and should address the following issues with some flexibility with regard to format:

I. FUNDING LEVEL

Annual Tactical Plan Period: 1/1/xx through 12/31/xx

A. Funding Tables:

1. *Current Funding Position (As of x/xx/xx)*

Total Fund Market Value	$xx billion
% Target for Private Equity	7%
Total Private Equity Allocation	$xx million
Current Net Asset Value Deficit/(Surplus)	$(xx) million

2. *Projected Funding Position*(1)

Five Year Projected Market Value	$xx billion
% Target For Private Equity	$xx million
Total Private Equity Allocation	$xx million
Amount Available for Investment in Current Tactical Plan Period:	$xx million

3. *Analysis of Funding by Strategy*

II. DIVERSIFICATION

A. Strategy: (Commentary)

B. Industry Diversification: (Analysis and Commentary)

C. Geographic Diversification (Analysis and Commentary)

D. Stage of Investment: (Analysis and Commentary)

E. Current Portfolio Risk and Return: (Commentary)

III. MARKET CONDITIONS

A. Market Conditions: Discussion of Partnership Market.
   1. Past 12 months.
   2. Next 12 months.
   3. Conclusion.

IV. PROSPECTIVE INVESTMENT

A. Investment Objectives:

   1. Types: Strategies to receive the foremost attention or priority.
      a. Venture Capital
      b. Buyouts
      c. Special Situations

   2. Expected impact on the portfolio regarding:
      a. Return
      b. Risk
      c. Diversification

D. Dollar amount to be invested

E. Impact on the portfolio.

F. Diversification considerations: Strategy, Geographic, Industry, and any other relevant considerations.

V. MONITORING

A. Specific situations being monitored, underperforming investments.

B. Actions to be initiated or in progress with existing investments.

C. Other specific goals related to the monitoring of the ARMB's investments.

V. EXITING

A. Pending distributions or liquidations.

B. Any other relevant considerations relating to existing ARMB investments.

VI. OTHER

A. Other items relevant to the ARMB's portfolio.

SUMMARY

Investment Objectives: Summary of basic goals for the portfolio for the next 12 months.

APPENDIX:

Projected Funding Schedule and any other attachments the Investment Manager would like to submit.

ALASKA RETIREMENT MANAGEMENT BOARD

Prospective Private Equity Partnership Investment Disclosure Form

Please provide the following information in hard copy to the ARMB at least 5 business days prior to legally committing to any investment on behalf of the ARMB, as follows:

Mr./Ms. _______ ________, Title: Alaska Retirement Management Board, 333 Willoughby Avenue, 11th Floor, Juneau, AK 99811. Ph: 907-465-2350, Fax: 907-465-2394

1. General Information:

Name of Partnership: ______________________________
GP/Investment Advisor: ______________________________
Address: ______________________________
____
Contact Person: ________________ Title: ________________
Phone: ________________ Fax: ________________

2. Investment Size:

Anticipated Total Partnership Size: $___________
Anticipated Commitment by the ARMB $___________
% ARMB Commitment of Total Partnership: ___________%
# of other clients placed in investment ___________
Total Ownership of Advisor's Clients $___________ (excluding Alaska)

3. Proposed Category:

_____ VC Early
_____ VC Multi
_____ VC Late
_____ Buyouts - Large
_____ Buyouts - Small/Medium
_____ Buyouts - Industry Consolidation
_____ Special Situations - Hybrid
_____ Special Situations - Strategic Block
_____ Subordinated Debt
_____ Restructuring
_____ Project Finance/Other Cash Flow

4. Provide Brief Description of Investment Objective:

5. Description of Fit with the ARMB's Annual Tactical Plan:

6. Disclosure/Other Comments:

A. Please describe any prior investment history with the general partner group and of any existing holdings affiliated with the general partner group.
B. Are there any items associated with the investment of which the ARMB should be aware?
C. Are there any other comments the Investment Manager would like to mention?

8. Attachments:

A. Include Offering Memorandum and any other relevant materials.